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FARMERS AND THE EXPORT MARKET

Address of HON. HENRY A. WALLACE, *Secretary of Agriculture, before the annual convention of the American Farm Bureau Federation, Chicago, December 10, 1935*

As I address you here today, my mind goes back to other annual meetings of the American Farm Bureau Federation. A record of your proceedings from year to year would doubtless give a fairly accurate history of American agriculture during the period since the World War, for it is through your organization and the other great farm organizations that the collective voice of agriculture is heard.

The difficulties of agriculture which grew out of the war brought problems of a type that farmers of this country had never before had to face. These problems stirred the thinking of farmers in widely scattered parts of the country. A new group of leaders arose who had one thought in common—that something must be done if American farmers were not to sink back permanently to the status of peasants.

No group was more alive to the problems of that period than the officers and members of the Farm Bureau. I have no doubt that hundreds of those attending this meeting were active, locally or nationally, in the various movements which represented the current attempts of organized agriculture to gain economic justice. The situation following the war was new to American farmers, and there were naturally different points of view as to what ought to be done. Gradually it became evident that first and foremost in importance was establishment of a principle, and that agreement on methods could come later. "Equality for agriculture" was the slogan adopted by the American Council of Agriculture, and this was recognized by farmers generally as the goal they were seeking. But it took a dozen years of depression and disaster to unite the various groups of farmers behind a single program.

McNARY-HAUGEN MOVEMENT WAS FORERUNNER OF A. A. A.

The fight that you in the Farm Bureau and others made for the McNary-Haugen bill and its equalization fee was the forerunner of the drive for the export debenture, and the ultimate adoption of the Agricultural Adjustment Act, with its processing taxes and benefit payments.

That McNary-Haugen fight taught farmers the importance of standing together. There were differences of opinion concerning details, and to reconcile these differences required a good deal of give-and-take. Now, as then, farmers cannot afford to fall out among themselves, for self-seeking interests which have always opposed

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them are ready to take advantage of any division in their ranks. Now, as then, there is a need for calm examination of the facts and a spirit of friendly give-and-take in deciding on the direction that organized agriculture ought to go.

I know that some of you are dubious about the effect of the new reciprocal trade agreement with Canada. I am not here to tell you what you ought to think. But I would like to give you my own thoughts, whatever they may be worth, concerning it. I believe the way this agreement is received by yourselves and the other farmers of the United States may have an important bearing on the history of American agriculture and of the American people for perhaps the next 100 years. And so I would be derelict in my duty if I did not give you the picture as I see it, completely and frankly.

Before I talk about details of the Canadian trade agreement I want to sketch in a little of the background. For if we get our attention fixed *first* on the details, we are likely to miss the larger significance of the agreement altogether.

The trade agreement, as you know, involves alterations in the tariff. This time the alterations are designed to benefit agriculture as well as the rest of the public. I am sorry to say that farmers in the past have consistently been the losers whenever there has been any tinkering with the tariff. That was true when the Payne-Aldrich Tariff, with its increased schedules, was passed in 1909, and again when a downward revision of rates was effected in the Underwood Tariff of 1913.

WORLD WAR AFFECTED FARMERS' STAKE IN THE TARIFF

However, as long as this country was a debtor nation and was paying interest to the rest of the world, the farmers' stake in the tariff was less direct and less important than it became later. The farmers had a substantial surplus of their major crops for export. For these crops the price they received was the world price, and a tariff protection on such crops was a pure fiction, having no effect whatever on their price, except to a slight extent in the rare years of extreme drought. Furthermore, the sale of American farm products abroad did not depend so greatly as later on imports of foreign goods into the United States. The amount which this country paid to Europe in interest and for services exceeded $500,000,000 a year, and this was paid largely in farm products.

Under those circumstances the views of farmers concerning the tariff were determined by other considerations. Farmers of the South, adhering to their traditional position, were against the tariff; but farmers of the Middle West were largely for it. In each case they believe the tariff, or the lack of it, helped their markets. The farmers of the South, with big markets for cotton abroad, wanted international trade to be as free as possible; but the farmers of the Middle West and the East as well were less conscious of their dependence on world outlets and attached greater significance to the domestic market.

The war brought a fundamental change in the situation, which made the tariff of *direct* importance to all agriculture. However, it was several years before most farmers realized this. When the depression of 1921 hit the farms one of the first things that occurred

to certain influential agricultural leaders was to raise the tariff on farm products. My father, who was then Secretary of Agriculture, believed that the whole farm problem should be considered by the best minds in agriculture, and called a conference in Washington.

At this conference a representative from each of the four great regions of the country was invited to speak on behalf of his region. I remember that the man chosen to represent the Middle West, Mr. A. Sykes, then president of the Corn Belt Meat Producers' Association, felt that, in view of America's changed creditor position, any new tariff legislation which tended to cut down our industrial imports from Europe would also reduce our farm exports to Europe.

REDUCTION OF INDUSTRIAL IMPORTS MEANT REDUCTION OF FARM EXPORTS

My own view was identical with his, and I did not hesitate to express it as vigorously as I knew how. For example, on April 28, 1922, in a magazine of which I then was editor, I wrote:

> Our agriculture has been built up on the basis of expecting European demand to absorb half our cotton crop, one-fourth our wheat crop, and one-tenth of our hog production. Can Europe pay American farmers cost of production every year for 150,000,000 bushels of wheat, 6,000,000 bales of cotton, and 1,000,000,000 pounds of pork? It would seem to be an utter impossibility unless Europe sells us two or three times as much in the way of manufactured goods as will likely be let into the United States under the proposed tariff.
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> If the proposed tariff really represents a well thought out national policy, it would seem to be essential for us to get to work at once on readjusting our agriculture in conformity thereto. If we make it impossible for Europe to create in the United States the necessary credits with which she can pay cost of production for our wheat, cotton, and pork, then it is up to the American farmer to restrict his production of those commodities to his home market.

That was in 1922. With regard to unduly high tariffs, therefore, I speak now with deep and long-standing conviction and I believe, with no partisan bias of any kind, when I say that for a creditor nation to raise its tariffs, and thus destroy its export agriculture, as this nation began to do in 1922, was insanity.

"MAKING THE TARIFF EFFECTIVE FOR AGRICULTURE"

Farmers and farm leaders were not long in realizing that the Fordney-McCumber Act was not going to pull agriculture out of its depression. The principal farm staples were sold in world markets, and the tariff could not affect their prices. Simultaneously, every time they footed their bills for things they bought, farmers found that the tariff really did help to maintain high industrial prices. They began to talk about "making the tariff effective for agriculture." Soon the McNary-Haugen plan, providing for the segregation of export surpluses through the device of an equalization fee to be paid by the farmer, was brought forward. There followed, as most of you will recall, the 5-year-long fight by farmers and their friends in behalf of that proposal.

But in spite of congressional approval, the interests which then dominated the government in Washington managed to block the enactment of this bill, through two successive presidential vetoes.

In the meantime another method for "making the tariff effective for agriculture" had been proposed. This was the export-debenture

plan. This plan, too, was blocked for the same reasons and by the same interests which had thwarted the McNary-Haugen movement.

Then came the Agricultural Marketing Act creating the Federal Farm Board and the Smoot-Hawley Tariff Act of 1930.

FOREIGN LOANS POSTPONED THE DAY OF RECKONING

The full damage done to agriculture by the Fordney-McCumber Tariff Act had been hidden by the billions of dollars of loans abroad extended by American citizens in the period from the war until 1929. These loans maintained foreign purchasing power for our products at artificial levels. The policy of extending loans and expanding sales of American products abroad by high-powered sales promotion methods was diametrically opposed to the policy of maintaining and even raising the tariff. To pursue such conflicting methods at one and the same time was absurd, if not suicidal. Foreign countries could repay the loans only in gold, or in goods and services. There was not enough gold in the world, and with our tariffs and other devices we refused to permit the sale to us of goods or services.

Such a situation could not last. When consideration of the Smoot-Hawley bill, ballyhooed as a measure of agricultural relief, was begun by Congress in the spring of 1929, I was convinced that agriculture was doomed to get even worse punishment than it had already suffered. I wrote in an article published June 14 of that year:

> And now we have offered the Hawley-Smoot bill of 1929, which definitely discriminates against the farmers of the Middle West and the South more than ever before. Apparently both the Democrats and the Republicans believe that the farmer has always been a "sucker" in tariff matters and always will be. History proves they are right, but looking into the future, I am convinced that the time is coming when the tariff situation will explode with a violence that will make the tariff upheaval of the Taft days seem a mild-mannered tea party.

The Smoot-Hawley bill became a law on June 17, 1930. On the day of its final passage through the Senate over the protests of most of the agricultural representation in both parties, the bill was still hailed by its sponsors as a measure for the revival of both industry and agriculture. I well remember reading with astonishment the eloquent closing appeal by the bill's champion spokesman in the Senate. He pleaded that if the bill was passed, the Nation would be on the upgrade "financially, economically, and commercially" within 30 days, that we would regain the peak of prosperity within a year, and that thereupon we would again "resume our position as the first and foremost of all the peoples of history in all the essential elements of individual and national greatness."

THE SMOOT-HAWLEY ACT AND WHAT IT DID TO AGRICULTURE

But in real experience, as contrasted with the imagination of its backers, the Smoot-Hawley Act did not work out that way. The bill actually proved to be the most outrageous instance of selling agriculture down the river to the traditional beneficiaries of tariff privilege. Once again, as in 1922, agriculture had been traded out of its shirt in a game of log-rolling. An unholy alliance of cement, lumber, coal, and brick interests—every one of them having agriculture as a big customer—finally maneuvered the bill through Congress. Monopolists and others already well fortified by tariff ad-

vantages established themselves even more impregnably within the citadel of protection.

What did the farmers get in return? The wheat farmer got exactly the kind of " protection " which had been shown by steadily parallel Chicago and Liverpool prices to be a sham. The corn and hog farmers, the tobacco and rice producers, the prune and grapefruit growers, got the same unreal concessions. There was nothing whatever in the act for the Southern cotton farmers, except for a few growing long staple cotton. The potato growers who just this year saw their prices sink so low that in some places they barely equalled one-third the Smoot-Hawley bill's so-called " rate of protection " for potatoes, also were given a fine favor on paper, but little if any help in fact.

Of course, not every increase in agricultural rates made by the Smoot-Hawley bill was quite meaningless. Dairymen and wool growers, as well as a few smaller groups, did possibly derive some temporary benefits, which, however, in my opinion, were offset by the tremendous damage done to the general welfare, which ultimately reacted to destroy thousands of dairymen and wool growers behind their presumed wall of protection.

By and large, the promise of help for agriculture from the Smoot-Hawley Act turned out to be a grim deception.

TARIFF AND TRADE BARRIERS ERECTED ABROAD IN RETALIATION

And, moreover, while the purported benefits failed dismally to materialize, fears of agriculture and all other export industries that they would be damaged were swiftly and disastrously confirmed. One country after another among our good customers, alarmed by our new and drastic tariff act, knowing they could not buy from us, since the Smoot-Hawley law would not let them sell to us, shot up retaliatory barriers against our imports. Every country in Europe equipped itself with governmental devices whereby any American or other products could be blocked overnight. Tariffs, quotas, and embargoes were imposed. Germany raised its tariff on American wheat from 42 cents a bushel to $1.19 and later to $3.84; France raised its tariff on American wheat from 53 cents a bushel to 85 cents and later to $1.49; and Italy raised its tariff on American wheat from 73 cents a bushel to 87 cents and later to $1.69. Milling regulations favoring wheat grown in those countries, along with quotas and other quantitative limitations on imports, were even more effective than the higher tariffs in keeping out American wheat. Similarly, European countries increased greatly their duties on American pork and lard and in a number of cases limited imports by quotas and other devices. Imports of American tobacco also have been restricted by higher duties and governmental monopoly controls. Severe restrictive measures against imports of American fruits were adopted by some countries.

Both our exports and our imports slumped drastically. Agriculture, exporting in the pre-depression period from 13 to 16 percent of its products as compared with industry, which exported only 5 to 8 percent of its output, was the principal victim. The outcome was the stagnation of trade and the collapse of agriculture. Finally, when farmers had been forced to quit buying the products of industry, a depression resulted which became not only Nation-wide but world-wide. When that happened the damage to all agriculture was

so great that it swept away all the meager advantages which the Smoot-Hawley bill had to offer anybody, including those few groups of farmers who had held some real hopes of tangible benefits.

The drying up of the foreign loans, beginning in 1930, had removed the artificial props from the farmers' price structure and had opened the way for the first time to the full catastrophic effects of high industrial tariffs on our export agriculture.

A. A. A. HELPED UNDO SOME OF THE DAMAGE

The Fordney-McCumber Tariff, with its schedules of high rates, and the Smoot-Hawley Tariff, with its still higher rates, had both conspicuously failed to help agriculture, and the cry for a tariff that would work for the farmers would not down. The farmers stopped looking up toward ever higher tariffs and began to look sideways toward making effective those which already existed. The result was passage of the Agricultural Adjustment Act in 1933.

The processing tax, which Congress levied in the Agricultural Adjustment Act, was in truth the "farmer's tariff." And yet it could not undo *all* the damage that the tariff had done to agriculture. Through the processing taxes and benefit payments and the control of production thus made possible, farmers could be given somewhere near the equivalent of a fair price on that portion of their products consumed in the United States. But in the past a considerable slice of their income had come from sales abroad, and unless the volume of these foreign sales could be restored, farmers would have to get along in the future without the added income. There was the possibility that if they were willing to sell their goods at a *low enough* price abroad, through some device for export dumping, they could regain their lost markets. Even this would be likely to come to an end sooner rather than later, for other countries were in position to retaliate instantly with new trade barriers. Anyway, there was no point in farmers continuing to export a large volume of stuff just for the sake of volume, regardless of the price they received, and regardless of the fact that in its essentials such a course would involve giving away the precious fertility of our farms to subsidize foreign industry with cheap food.

All this brought the nation face to face with its foreign trade dilemma as never before. Here was the dilemma: If enough foreign goods were suddenly imported to permit the continued exportation of *all* of agriculture's surplus beyond domestic needs, the effects on our industrial and economic structure would be highly disturbing. On the other hand, complete retreat by farmers from the foreign market would place the shock of readjustment entirely on them and leave the permanent problem of what to do with 50 to 100 million surplus acres. There was no way to avoid these extremes, each of which would be unfairly harsh to either industry or agriculture, except to choose some moderate middle course, which would mean agriculture and industry sharing the readjustment.

ADJUSTMENT PROGRAM AND RECIPROCAL TRADE POLICY BOTH TEND TO BRIDGE GAP

Two measures actually adopted by this Administration have represented an attempt to bridge the gap between the two extremes. The Agricultural Adjustment Act, enabling farmers to cooperate

in restricting production of their crops, was an attempt to bridge the gap from one direction. The Reciprocal Tariff Act, authorizing the President to negotiate trade agreements with foreign countries, was intended to bridge this gap from the other direction. The one measure called for adjustment by farmers, while the other called for adjustment mainly by industry. The two measures were not inconsistent with each other, but were complementary to each other.

The real and glaring contradiction exists in the thinking of those who want to solve the American problem by removing all controls from production and by dumping American goods on the foreign market, regardless of the price received, while at the same time preventing foreign goods by higher tariffs and embargoes from coming into this market. Such a contradiction can be evaded temporarily, but only temporarily, by vast loans to foreign nations or by accepting vast quantities of gold from them. Inasmuch as we cannot eat, wear, or otherwise enjoy gold or paper promises to pay, it can be seen that even when this contradictory program is made to work temporarily the net result is to impoverish the American people by shipping as much stuff as possible—including our precious soil fertility—*out* of the country and shipping as little as possible *into* the country.

The Government is *not* proposing any such contradictory or impossible program, but it *is* attempting to bridge, in a sensible and moderate way, the gap between the two extremes I mentioned a moment ago. Progress in the direction of adjustments by farmers has gone forward rapidly and effectively under the Agricultural Adjustment Act. Progress under the Reciprocal Tariff Act has not been so rapid, because not only our nation but foreign nations are involved, and the problems of making trade adjustments suitable to both parties involved in an agreement are numerous and complex.

Thus far reciprocal agreements have been concluded and are in effect with Cuba, Haiti, Belgium, and Sweden. Another, with Brazil, goes into effect January 1, the same day as the new Canadian agreement. Still another has been negotiated with Colombia, but has not yet been ratified by the Colombian Government.

CUBAN AGREEMENT HAS AIDED AMERICAN FARMERS

Among those actually in effect, the Cuban agreement has been of most interest to American farmers, and is the only one that has been in effect long enough to permit measuring the results. In return for lower duties on sugar, this agreement has permitted our lard exports to Cuba to double in volume and treble in value in the first year of its operation. Exports of other pork products have also increased greatly, while shipments of potatoes, onions, and other vegetables, rice and flour have all shown splendid increases. The dollar value of shipments of the farm products on which principal concessions were received by us jumped by nearly 175 percent, from $3,017,000 to $8,275,000, while our exports of other agricultural commodities also showed good results from the increase in Cuban purchasing power brought about by the agreement. All this was in spite of the fact that our 1934 drought reduced our capacity to export during the period in question. In the Belgian agreement, Belgium made concessions on a number of agricultural products, chiefly fresh and dried fruits, increased the quota on meat from 55,000 to

2,300,000 pounds, and permitted additional imports of lard. Belgium also made consessions on a number of industrial products. The United States, on its part, agreed to reduce duties on 47 products, including plate glass, cement, various iron and steel products, for which Belgium is the principal source of supply, and certain manufactures of flax. No reductions of consequence were made by the United States on farm products.

The Brazilian agreement provides for maintaining coffee on the American free list, and reduces the duty on Brazil nuts. Brazil, besides making concessions on manufactured products, agrees to continue apples and pears on its free list.

The agreement with Sweden brought concessions on American fruits, as well as on some nonagricultural items, in return for which the United States made concessions on raw materials needed in American industry, and several specialty products of Swedish industry.

Conversations have been started for an agreement with the United Kingdom.

CANADA NEAREST AND BEST CUSTOMER OF U. S.

In the meantime, an agreement has been negotiated with Canada, the nearest and best customer of the United States.

Prior to enactment of the Smoot-Hawley Tariff, we exported to Canada products totaling from 600 million to 870 million dollars a year, and imported 500 million dollars' worth. Of our exports to Canada, about one-seventh, or 100 million dollars' worth, were agricultural.

After the Smoot-Hawley Act had brought retaliatory measures from Canada, the value of our exports to that country fell to 230 million dollars and the value of our imports from Canada sank to 175 million dollars. Our agricultural exports to Canada, which had amounted to 100 million dollars, shrank to around 40 million dollars. The new agreement attempts to undo the terrific damage done by the Smoot-Hawley Act.

Because Canada is a country which exports large quantities of farm products, some people assumed, even before the terms of this agreement were made public, that a flood of such products would be permitted to flow into the United States, displacing large quantities of American farm products, wrecking the American farmers' prices, and making necessary additional cuts in their acreage.

Just within the past few days an idea has been advanced that the agreement represents extremely one-sided concessions to Canada. By lumping forestry products along with farm products, the impression has been created that at 1929 values the United States had made concessions on 258 million dollars of agricultural imports, or that 83.8 percent of our concessions were in agricultural products. As a matter of fact, the true figure is not 83.8 percent, but is only 10.7 or possibly only 2.6 percent, depending upon how you look at it. The greater part of the 83.8-percent figure consists of wood pulp and newsprint, which were on the free list. I don't think the American farmers are going to worry because wood pulp and newsprint, accounting for three-fourths of the 83.8 percent, remain on the free list. More than half of the remainder of the 83.8-percent figure consists of lumber, on which the tariff and excise tax together have been

reduced from $4 a thousand to $2, but with a quota to protect the lumbermen of the Northwest. Now, if the farmers are like they were when this lumber tariff was imposed in 1930, I don't think they will weep over this reduction, and I don't believe agriculture will relish being made the shield for Western lumber interests' attacks on the agreement.

When the agreement is calmly examined, both broadly and in detail, the extraordinary skill with which it has been devised becomes apparent. In appraising it, suppose we consider in turn its effect on the two great divisions of American agriculture—first, that part of American agriculture which ordinarily sells on export markets, and second, that part which is dependent almost entirely on domestic consumers for its outlets.

No concessions at all have been made to Canada by the United States on those commodities which sell on world markets—wheat, cotton, tobacco, and pork. As for the other commodities, for which domestic demand sets the price, the concessions that have been made are not sufficient to have appreciably adverse effects upon any important group of American farmers.

CREAM QUOTA REPRESENTS ONE PART IN 1,000, COMPARED WITH TOTAL U. S. OUTPUT

On cream the United States agrees to reduce the duty from 56.6 cents a gallon to 35 cents a gallon on a quota of 1,500,000 gallons. The amount of cream admitted at the reduced figure represents one-tenth of 1 percent of the annual milk production in the United States, and eight-tenths of 1 percent of the milk produced in the North Atlantic States, where most of the imports from Canada occur. That is, if you think of the total production of milk in the United States as enough to fill one thousand cans, the amount of cream admitted from Canada or elsewhere at the reduced rate would be the equivalent of only enough milk to fill one can. Or if you think of the total production of milk in the North Atlantic States as being enough to fill one hundred cans, the amount admitted from Canada or elsewhere at the reduced rate would be only one can four-fifths full. The 1,500,000-gallon quota compares with actual imports of nearly 3,000,000 gallons in 1929, and is only a minor quantity when compared with the ordinary amount of fluctuation in dairy production from one year to the next.

American dairy farmers may argue that it is not the quantity of cream admitted at the reduced rate that counts, but rather the effect on the price structure of dairy products in the United States. All economic experience proves that the effect on American cream prices of so small a volume of imports will be negligible.

A duty reduction is also made on cheddar cheese. The reduction is from 7 cents a pound, or not less than 35 percent ad valorem, to 5 cents a pound, or not less than 25 percent ad valorem. This is exactly the same rate that was in effect prior to 1930. Imports of cheese from Canada, even under this lower rate and under conditions of prosperity in the United States, never reached an important percentage of our production. So far as I can see, there is no reason to think that the imports of cheese will return even to the level prevailing prior to 1930 unless there is a very substantial rise in the price of cheese in this country.

CATTLE IMPORTS LIMITED BY QUOTA

The United States agrees also to reduce the duty on cattle weighing more than 700 pounds from 3 cents to 2 cents a pound, but the number of animals permitted to enter at the reduced rate is limited to three-fourths of 1 percent of the average total slaughter of cattle and calves in the United States during the period from 1928 to 1932. This percentage represents 155,799 head, and the number is considerably smaller than actual imports prior to 1930, when the duty was 1½ cents.

Reductions in the duty on calves and dairy cows are made on limited quotas, which, as in the case of cattle, have been carefully calculated to keep imports from going beyond the level of the period preceding 1930.

On certified seed potatoes up to a quota of 750,000 bushels, the United States agrees to reduce the duty from 75 cents a hundred pounds to 60 cents for the months December to February, inclusive, and to 45 cents from March to November, inclusive. The quantity of 750,000 bushels represents about 5½ percent of the average annual United States production of seed potatoes during the last 5 years.

There simply isn't anything to the bogey of the most-favored-nation clause as raised against the Canadian agreement. Cattle over 700 pounds in weight simply do not come to any extent from any country but Canada, and if they did, the 156,000 quota would still serve as an over-all limitation. Cream does not come in any volume from any country but Canada, and even if it did, the cream quota would serve as an over-all limitation. Neither are seed potatoes likely to come in volume from any place but Canada. Whisky is the only important commodity in the agreement in connection with which the duty reduction by the United States will substantially help countries other than Canada. The duty reduction on whisky will be of value to the United Kingdom and the Irish Free State, but will be of net advantage to the farmers in this country by increasing the purchasing power for our agricultural products in those important markets. No, my friends, the difficulty is that some people instinctively infer that in any agreement with Canada American farmers are certain to get the worst of it. They can't understand that we now have an administration that is definitely friendly to agriculture and that it is willing and capable of showing this friendship even under difficult situations.

Other agricultural products upon which the United States makes duty reductions to Canada consist of certain fruits and vegetables, poultry, grass seeds, hay, oats unfit for human consumption, horses, and maple sugar. In none of these cases are imports in prospect that will have materially adverse effects upon American producers.

Now, when the agreement is thus examined in detail, what becomes of the idea of a great flood of Canadian farm products coming over the border? It evaporates.

GAINS TO AMERICAN FARMERS OUTWEIGH LOSSES

I have dwelt in detail on the concessions made by the United States on Canadian farm products because it is these concessions which seem to be disturbing some of our farmers and farm leaders. Over against these must be placed the very real gains assured American farmers by reason of the agreement, which, in my considered judgment, so far outweigh the losses that the net advantage to our agri-

culture from the agreement as a whole is very much worth while. This is especially true when it is considered that American farmers themselves are the sole consumers, or else the principal consumers, of several of the products on which rate reductions are made, as, for example, seed potatoes, clover seed, and feeder cattle.

Substantial reductions are made in the Canadian duties on meats and meat products, including especially pork and lard. These reductions mark new gains for a settled policy of reopening major outlets for American pork products.

A BIGGER SHARE OF THE BRITISH PORK MARKET

A significant angle of the reductions in duties on pork products by Canada is the fact that this opens the way for our farmers to get back a bigger share of the British pork market. The United States' share of this market was cut in 1932 from 21 to 8 percent, while Canada's share was increased. But it so happens that Canada has not used its full quota. The new agreement will permit American pork to go to Canada to replace Canadian pork exported to Great Britain, thus in effect permitting increased exports of American pork to Great Britain. With our large corn crop of 1935 and the prospect of increased hog production, the possibility of shipping greater quantities of our pork to Canada becomes of major importance.

FRUIT AND VEGETABLE GROWERS BENEFITED

Important benefits will accrue to growers of fruits and vegetables in the Pacific Coast States, Colorado, the South, and to some extent the Northeastern States along the border. Under the agreement Canada places potatoes on the free list. In years of large potato crops in the United States we have in the past shipped large quantities of potatoes to Canada, and therefore this action of Canada will be of great benefit to American potato producers.

Our grain growers, who feared that they would be subjected to new Canadian competition, find instead that they have made substantial gains through the agreement. Duty reductions have been made by Canada on practically all grains and grain products, and some of these reductions place the duties at levels below those which prevailed in 1929. Canada is ordinarily our best market for all grains except wheat, and concessions now made will open the way to recovery of a very beneficial trade in these commodities as soon as supplies reduced by the drought are replenished.

Duty reductions are also made by Canada on a number of other miscellaneous products, including hides and skins, soybeans, timothy seed, and broomcorn.

SPECIAL CLAUSE PROTECTS A. A. A. PROGRAMS

Furthermore, there is no chance that any of our own adjustment programs will be wrecked by the Canadian agreement. This is assured by a clause which provides that if either country undertakes to control the domestic production or marketing of any commodity, it may also limit the quantity of imports of that commodity.

INCREASED PAY ROLLS WILL HELP PRODUCERS OF LIVESTOCK PRODUCTS

Farmers of the United States will unquestionably gain from the increased exportation of manufactured products to Canada. Suppose that exports of these products are increased by 300 million dollars—a conservative figure in view of our trade with Canada in the past—and that half of this amount, or 150 million dollars, goes into pay rolls. This would mean definite and substantial gains in the cash income of farmers. Studies have shown that in the past an increase of 150 million dollars in United States factory pay rolls have added from 4 to 6 million dollars to the income of farmers in each of such states as Illinois, Wisconsin, Minnesota, Nebraska, Missouri, Iowa, and Ohio.

The increases in farm income resulting thus indirectly from the Canadian agreement will accrue largely to the producers of livestock products—the very same groups that are concerned over the concessions on Canadian cattle, calves, cream, and cheese.

In other words, the Canadian agreement will bring substantial improvement in the domestic market for these products—an improvement that greatly outweighs the very slight disadvantage resulting from the limited quantity of imports of these products. Agriculture, instead of having 100 percent of a poor market, will have perhaps 99½ percent of a greatly improved market. I think there is no doubt that farmers will be far better off with a good market, slightly shared.

For that matter, I wonder whether dairymen would say their industry was better off in the period from 1923 to 1927, when annual butter imports averaged over 13 million pounds, or in 1932, when these imports were only one million pounds. And I wonder also whether cattlemen thought themselves more prosperous back in 1927, when imports of fresh beef were large but prices of cattle and calves averaged over $13 a hundred in Chicago, or in 1933–34, when fresh beef imports had declined about 99 percent but prices were down to around $5 a hundred.

SHOULD COMPETING FARM PRODUCTS BE EXCLUDED ENTIRELY?

Now, there are some farmers and sincere friends of agriculture who argue with conviction that, since we already have a surplus or potential surplus of most agricultural commodities produced in this country, we ought not to make any concessions whatever in the duties on these products. Some even go so far as to propose that competing farm products be excluded from this country altogether, thus giving our own farmers 100 percent of the home market.

I understand the feeling of farmers that agriculture deserves to have the home market to itself. But I wonder if they have thought the matter clear through. I wonder if they perceive what the inevitable effect on themselves would be.

Let us consider this proposition for a moment and see where it leads. Experience in the past has demonstrated that whenever agriculture has obtained an additional measure of protection, real or fictitious, for itself, industrialists have seized upon such increases as an excuse to boost their own tariffs higher and higher. Never yet has agriculture been able to play successfully in the game of trading and trickery that surrounds the making of a tariff bill. Every time

the farmers have tried it they have been divided, outmaneuvered, and defeated in the end. The betrayal of agriculture in the Fordney-McCumber and Smoot-Hawley Tariff Acts, which I have already described, should leave no doubt in the minds of farmers as to what would happen if they risked that game again in a chance at all of the home market. If farmers insist on 100 percent of the home market for themselves, industrialists will do the same. And if all imports of both agricultural and industrial products are shut off, there can be no exports either. Agriculture not only would sacrifice its chance to win back the foreign markets it has already lost, but would be sure to lose the markets that remain. And permanent and complete loss of our export markets would be even more damaging to American agriculture than to industry, because agriculture has relied upon exports for so much larger a share of its total income.

AGRICULTURE WOULD BE LOSER FROM POLICY OF EXCLUSION

If adoption of high tariffs and following of the path toward isolation were a boon to farmers, then why was it that the status of agriculture under the Fordney-McCumber Tariff Act was worse than it had been in the period of the Underwood Tariff, and under the Smoot-Hawley Tariff was even worse than it had been in the Fordney-McCumber period? Take the duty on feeder cattle, for example. From 1913 to 1922 feeder cattle were on the free list. From 1922 to 1929 the duty was 1½ to 2 cents a pound, depending on the weight. After 1930 the duty was 2½ to 3 cents a pound. Now, strange as it may seem, the prosperity of agriculture has been in inverse ratio to the size of those duties! This may have been largely due to other forces, but at least the increase in those duties certainly failed to keep agriculture from going down the toboggan, and the comparatively modest retreat to a duty of 2 cents on cattle of more than 700 pounds, safeguarded with a definite quota, is no earth-shaking event.

Even the branches of agriculture which seem to benefit from a tariff are hurt eventually when exports of other farm products are prevented. The dairy farmers, for example, have seemed to benefit at times from the tariff on butter. But when other farmers were forced out of production of export products, such as cotton, tobacco, pork, and wheat, they began to turn to dairying, and so the dairy farmers suffered too.

No; if agriculture insists on a policy of exclusion, it is bound to be the loser, and producers of those farm products which are sold at the present time exclusively on the domestic market and are apparently protected by tariffs will lose also, with a delay of only a year or two.

OTHER COURSE LEADS TOWARD INCREASE OF INTERNATIONAL TRADE

There is another course which American agriculture may follow. This course, predicated upon our taking our place in the neighborhood of nations, leads toward gradual and sensible increase of international trade, including the export of American farm products. I believe almost all farmers and farm leaders are agreed on the desirability of retaining or regaining their export markets, though, of course, there are differences of opinion as to the method.

And agriculture has a right to expect that it will not be the victim in downward tariff revision, as it was when upward revisions were

made. If agriculture is to be really helped by the reciprocal tariff policy, increased imports must consist largely of manufactured or industrial products. This would help agriculture in two ways. First, it would build up dollar exchange abroad with which other nations might buy more of our farm products. Second, it would tend to lower the prices of things farmers buy. For example, the slight reduction in our lumber tariff provided in the Canadian agreement will make it somewhat easier for farmers as well as city people to construct the buildings they need. The stimulus to the building industry given by lower prices will probably bring such increased volume of business that in the long run even the domestic lumber producers will be helped rather than hurt. Lowering of tariffs on some industrial products would restore competition where monopolistic conditions now prevail, and would bring more production at lower prices. In fact, the lowering of tariffs would be one of the most effective ways I can think of to enforce the antitrust laws.

MAKING OF TRADE AGREEMENTS A PRACTICAL MATTER

But the making of reciprocal trade agreements is a practical matter. Other nations as well as our own are parties to them. If agriculture should insist that not even the tiniest concessions on importation of farm products should be made, then I am very much afraid that the negotiation of such agreements would become almost impossible.

A moderate suggestion has been advanced that a kind of acreage balance sheet should be kept. Each agreement, according to this view, would be studied from the standpoint of its effect on our farm acreage. We would make sure that the acreage displaced by increased imports of farm products would at least be balanced by the acreage needed for production of the increased exports. At first thought, this may seem like a good idea, and in fact it might to some extent be applied. The trouble is, however, that some commodities like fruits and vegetables require only a small acreage in proportion to their value, while commodities like cattle and sheep produced on grazing land may require an exceptionally large acreage. Hence, in a general way, a computation of this sort would be rather unsatisfactory. Furthermore, I do not believe that farmers are primarily interested in *acres* as such. What they are concerned with is *income*. And the trade agreements should be scrutinized most closely to see what the effects on farm income are likely to be.

IMPORTS CAUSED BY DROUGHT ARE FALLING OFF

While I am on the subject of imports of farm products, I would like to call your attention to the fact that the unusual imports of a number of farm products caused by the drought have already fallen off. Comparing October with April, the trend of imports in 1934 was sharply upward for butter, canned beef, barley, corn, oats, wheat, and hay. But, comparing October with April in 1935, the trend has been reversed for every one of these products except corn and wheat, and imports of butter, barley, oats, and hay have virtually ceased altogether. The normal crop of corn in 1935 is now beginning to be marketed, and sizable imports of corn will undoubtedly soon be a thing of the past. Imports of wheat will continue into next year

because of rust damage to the 1935 hard spring wheat crop. And may I mention in passing that there was no control program for spring wheat in 1935.

Processors and others who for their own reasons always seek to distract farmers' attention from the real interests of agriculture, have made a great outcry over such imports as have come in during the last year, and have asserted that the adjustment programs, by restricting production at home, were opening the way to great increases in foreign competition. Now that the imports caused by the drought are falling off—imports which never were more than 2 percent of the drought loss—I expect that these same wolves in sheep's clothing will switch their attack to the imports of wheat and such small amounts of cream, cattle, and seed potatoes as are admitted at reduced rates from Canada. Admitting right here and now that the Canadian agreement is not perfect, and welcoming constructive criticism of it from any source, I want at the same time to assert my conviction that the other kind of attack—the bitter, venomous kind—is not inspired by any desire to help the farmers of this country. I believe that such unbridled assaults are inspired rather by the same interests which, working through both political parties, have fought every attempt by the farmers to gain economic fair play. They are the same implacable enemies of agriculture that fought the McNary-Haugen bill and the debenture, put through the Smoot-Hawley Act and are now out to kill off the processing taxes and the adjustment programs. They are for effective tariffs for industrialists but against giving agriculture the same degree of protection. They are equally enemies of the farmer and of the consumer.

CANADA AND U. S. SHARE IN PROSPERITY AS WELL AS DEPRESSION

The agreement has lately been assailed in this country on the ground that it would mean more abundance and greater prosperity in Canada. This incredible appeal to prejudice is baldly made by the same Smoot-Hawleyites who are dodging all responsibility for our depression on the theory that it originated wholly outside the United States, making us the victims of forces that sweep over boundary lines. I now call attention to the simple economic fact that, if depression has international aspects, so has recovery. Moreover, Canadian and American figures on both employment and industrial activity prove beyond doubt that there is the closest kind of a parallel between economic conditions in Canada and the United States. So, if the agreement is followed by more abundance and more prosperity for either one of the nations which are parties to it, the common causes of that improvement will inevitably mean improvement also for the business and agriculture of the other.

The true objectives of agriculture's foes are betrayed by their own tactics. They oppose the farmers' adjustment programs which are designed to offset the loss of foreign markets. But with equal vigor they also fight the trade agreement policy designed to regain foreign markets. They seek to foment consumer resentment against price increases resulting from the fact that, for once in his life, the farmer now has some tariffs that are actually effective, and American farm prices are actually above world prices. And then they tell the farmer he should have his own home markets without world competition or world prices. Why should any group of farmers or con-

sumers be fooled by such two-faced arguments? Why should agriculture pull the chestnuts out of the fire for its traditional enemies?

HOW TO MOVE FARM SURPLUSES INTO EXPORT IS PROBLEM

Agriculture's real and continuing problem is not how to stop the little trickle of competing farm imports, but how to move its own great surpluses into exports. For 3 or 4 years, unusually short crops of corn and small grains, resulting from abnormal weather conditions, have obscured the picture. I am afraid farmers do not realize what the pressure of surpluses may do to prices of their products within the next year or two.

Normal yields of wheat, for example, on the acreage in prospect for 1936, would bring a crop of more than 800 million bushels, which would mean an exportable surplus of 150 million bushels. Exceptionally good yields could bring a crop of around 900 million bushels. With normal weather conditions for their grains, American farmers will be plunged back on the world market, even though there is a more aggressive agricultural adjustment program than at the present time. The problem then once more would be, how to dispose of a big exportable surplus. If outlets could not be found, the only way to prevent new carryovers comparable to those of 1932 and 1933 would be for farmers to make new and drastic cuts in the acreage of their export crops.

FUNDAMENTAL TRADE READJUSTMENTS NEEDED

It is the chronic problem of surpluses and the continued need for export markets that makes the question of farm support for the reciprocal tariff policy so vital. As I said before, there is room for differences of opinion concerning the best way to restore foreign trade. But I am sure that farmers are *not* interested in makeshift arrangements that will give them temporary export advantages and then leave them worse off than before. They had a taste of that during the decade of the twenties when they lived in a fool's paradise, not realizing the pit which had been dug for them. They *are* interested in fundamental readjustments in our trade relationships with the rest of the world that will give them an opportunity to export reasonable quantities of their products year after year. And so I feel that the way in which they receive the Canadian agreement may have far-reaching effects on their own fortunes for a long time to come. If they permit their attention to be fixed on certain details of the Canadian agreement and neglect the larger picture, they may take a position which will wreck the incipient movement for a return to sane trade relationships throughout the world.

But if, on the other hand, they look upon the Canadian agreement as one important link in the chain of new international friendship, and if they resolutely insist on the forging of other links which directly and substantially serve their own interests, they will be working toward gradual restoration of agriculture and the well-being of the entire nation.

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